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# THE MORAL CONSEQUENCES OF GROUP IDENTITY

Many modern organizations take great pride in the ethical standards they espouse. Unfortunately, such codes of conduct are not very effective in preventing unethical behaviour.

**IT HAS BECOME ALL-TOO-APPARENT IN RECENT YEARS** that when faced with tough decisions, managers often act in accordance with their vested self-interest. What is less understood is that in many social situations, self-interest is channeled into a group or a society's interests, which leads to a considerable change in our interpretations of ethics or morality. Executives involved in the **Enron** scandal, for

instance, emphasized the significant influence of their being a 'team player' as a cause of a series of immoral acts that harmed the interests of shareholders and the general public.

Research to date suggests conflicting logics as to whether groups are more or less ethical than individuals. On the one hand, groups include individuals with diverse perspectives, increasing the



likelihood that at least one person will have a heightened moral awareness, which can then lead to an increase in the ethicality of group decisions; on the other hand, group members may define themselves as an 'in-group,' with anyone not in the group becoming an 'out-group,' making less-ethical behaviour toward the out-group more easily justifiable.

We believe that self-interest impedes ethical decision making by exerting different influences at different stages of decision making. In some of these stages, the influence of self-interest can be overcome by groups, while in others, the presence of a group can accentuate the influence of self-interest. The most widely-accepted model of ethical decision making was developed by **James Rest**, whose Four Component Model of Moral Behaviour consists of the following steps:

1. Recognizing the moral issue
2. Making a moral judgment
3. Making a moral decision
4. Taking moral action

In Rest's model, each component in the process is conceptually distinct: success in one stage does not imply success in any other stage because the four stages are influenced by a variety of different factors. We will now look at how self-interest and group context are affected in each of the four stages.

### 1. Recognition of Moral Issues

When individuals are confronted with decisions that activate self-interested motives, they may be less aware of the moral consequences of their acts. Providing extrinsic motivations such as monetary incentives for morally-desirable activities reduces intrinsic motivation in these activities, leading to decreased moral action. For example, people become less willing to donate blood when they perceive that their contribution is driven by monetary compensation rather than by charitable intentions. One reason this occurs is because extrinsic rewards make self-interest salient and 'crowd out' intrinsic motivation. Thus, when decisions have moral consequences, salient self-interest may prevent people from recognizing the moral implications of their decisions.

A 'goal-shielding mechanism' has been proposed that also supports the notion that salient self-interest can crowd out moral awareness. In this framework, when a primary goal is activated, it tends to reduce the salience of other goals, blocking their influence on decisions. This goal-shielding process may be facilitated when the primary goal is consistent with an individual's personal goals. Thus, when self-interest is present and salient, preserving or promoting self-interest becomes the primary goal, preventing individuals from seeing other goals such as maintaining fairness or considering the welfare of others.

A group context can influence the relationship between self-interest and moral awareness in two ways. First, the simple activation of a group or social identity can switch a person's focus from self-

interest to their group's interests, creating the possibility of 'in-group bias': studies have shown that individuals with salient group identities are likely to favour their in-group members, sometimes sacrificing their own interests to do so. These departures from strict self-interest do not guarantee ethical action, however, because individuals who identify with their in-group often act against outsiders.

Similarly, people are most inclined toward unethical action when they act to support themselves and their group members. In fact, individuals who are committed to group goals may be as blind to the potential moral pitfalls in their decisions as individuals who are absorbed by their own self-interest. To the extent that self-interest is incorporated into and replaced by in-group interest, we expect that both crowding out and goal-shielding mechanisms decrease the likelihood that an individual will see the moral implications of their decisions.

Second, although group members' various perspectives can increase the probability that moral dimensions will be explicitly discussed, this advantage may depend heavily on a specific group's composition. Even if diverse perspectives surface, they can easily get lost in group discussions. Empirical studies have shown that groups are more likely to not discuss unique knowledge when that knowledge is controversial.

Thus, the presence of a group may not necessarily increase moral awareness because self-interest may be served by the group's interests and diverse perspectives can be lost in group discussions. This suggests that when groups can further group members' self-interest, moral awareness and ethical decisions may be less likely. On the bright side, such a pessimistic view of groups may only be likely when self-interest and group action are both linked and salient. When self-interest can be separated from group processes, groups may be more morally aware and ethical.

### 2. Making a Moral Judgment

Self-interest can also influence moral judgment. Moral judgments have been shown to follow a cognitive moral developmental process ranging from the pre-conventional (characterized by a concern for the physical or hedonistic consequences of actions); to the conventional (characterized by a concern for the maintenance of role expectations, relationships, and the social system); and the post-conventional (characterized by a concern for individual rights and abstract ethical principles). Individuals achieve superior moral or ethical judgment when they progress to post-conventional concerns.

Although individuals are capable of higher-level moral reasoning, they often reason at moral development levels that are lower than the maximum, which suggests that the presence of self-interest can lead to a shift in their moral focus. In other words, post-conventional reasoning, i.e., concerns for individual rights and abstract ethical principles, does not preclude lower level, pre-conventional or conventional reasoning.

Even though Enron executives may have been able to reason at the post-conventional level, they relied heavily on conventional reasoning and emphasized the importance of fulfilling role expect-

tations as a 'team player' when they made corporate decisions that were morally lacking. This kind of convenient moral compromising allows individuals to self-justify unethical actions. Ultimately, any unethical decision that involves self-interest can be justified using pre-conventional moral reasoning, that is, 'acting against one's interests is unnatural.' This kind of logic has received social confirmation, in some cultures. Rather than viewing the cognitive moral development system as unidirectional (from lower to higher level reasoning), we believe that individuals are able, sometimes motivated by self-interest, to move between different levels of reasoning.

Group interaction can, however, attenuate the impact of self-interest on moral judgment. Groups that mix individuals at different stages of moral development have been shown to induce more moral behaviour, even by group members who had not progressed far on the moral development stages. Furthermore, cooperatively-oriented others can successfully persuade competitively-oriented partners to be cooperative rather than competitive in their interactions.

### 3. Making a Moral Decision

Individuals who face a conflict between self-interest and a moral choice often realize the moral implications of their actions. However, knowing what's right does not necessarily lead to corresponding intent. Moral Appropriation Theory suggests that individuals rely on the opinions of reference groups when they make decisions. Thus, individuals may judge an act to be immoral but still engage in it if everyone else in their reference group is behaving the same way.

Decisions in groups diffuse the responsibility of immoral acts, at least in terms of the actors' perceptions. An extreme example is 'mob behaviour,' in which the anonymity of a group can lead people to engage in unethical acts that they would otherwise avoid. Indeed, the social support from a single ally may be sufficient to increase the likelihood of unethical behaviour. Thus, groups can exacerbate the temptation of self-interest by providing social support for unethical behaviours and diffusing responsibilities.

### 4. Taking Moral Action

Even when individuals understand and acknowledge moral intent, their intentions may not translate into behaviour. The literature on affective and behavioural forecasting indicates that individuals are particularly inaccurate predictors of their future emotions and their future behaviour. For instance, although academics anticipated feeling miserable about being denied tenure, when actually faced with the event, they did not react as negatively as they originally anticipated. The common tendency to be affected by egocentric biases allows individuals to feel 'holier than thou,' believing that they will act more charitably than they actually do.

Women tend to report that they will directly confront a harasser when asked about hypothetical harassment scenarios. In reality, however, they often fail to voice their concerns when they have been harassed. Such behavioural mispredictions may be driven by affective mispredictions – although women predict that they will

If individuals' identities and self-interests are intimately tied to their 'in-group,' they are likely to be relatively unaware of the consequences of their actions on the 'out-group.'

feel anger and indignation, they fail to consider that feelings of fear may prevail in cases of actual harassment.

Numerous other explanations have been posited to explain individuals' inaccurate forecasts. For instance, we often have difficulties correctly envisioning future situations. Although we consider nearby events in realistic terms, carefully matching predictions with our abilities to fulfill these predictions, higher-level construals that centre around social desirability reign for more distal events. Alternatively, when we have little experience with a future situation, we may apply an inappropriate theory to predict our behaviour and feelings. Individuals making moral decisions may make similar mispredictions. Their actions may deviate from their moral intentions because they underestimate the temptation of self-interest and overestimate their ability to regulate their moral actions. Thus, because individuals fail to accurately predict their future emotions and behaviour, our best intentions may fail to translate into our best actions.

When we consider inaccurate forecasts, it is unclear what will happen in a group. On one hand, a group may help us to more completely envision a moral situation that we are unfamiliar with, thereby improving the accuracy of our predictions. On the other hand, the presence of in-group members may result in impression-management concerns and particularly-inaccurate moral forecasts.

### The In-Group/Out-Group Divide

When the in-group/out-group divide is salient, individuals can serve their own interests by competing with their out-group. History has often documented how a strong in-group identity can exacerbate the wrongdoing that is inappropriately attributed to an out-group (e.g., Nazi Germany and the Second World War.) Religious and ethnic conflicts that have given a new and depressing meaning to the word 'cleansing' provide numerous modern-day examples of the potential enormity of in-group vs. out-group conflict. To say that these events exemplify unethical decisions represents a serious understatement.

If individuals' identities and self-interests are intimately tied to their in-group, they are likely to be relatively unaware of the consequences of their actions on the out-group. Indeed, consideration of the moral consequences of a decision for out-group members may be quite rare. Further, individuals may receive considerable social support from their in-group members with respect to moral intent: if all

Unethical actors often claim that their compatriots should share not only in their fortunes, but also in their misfortunes.

in-group members subscribe to their joint group interests, actions that violate the interests of out-group members can be easily justified. Thus, a consideration of the impact of self-interest on Rest's four moral stages suggests that out-groups may be treated unethically.

Since in-group members are more psychologically proximal than out-group members, the concept of 'moral intensity' predicts that individuals should be more morally aware of issues involving in-group members than those involving out-group members. If the self and in-group members are psychologically connected, moral awareness of in-group members should be high, suggesting that moral behaviour will be particularly likely towards in-group members. However, the differences between an individual's self-identity and the identity that he or she derives from in-group members provide an opportunity for self-interest and in-group interests to diverge. Thus, individuals may not act in their in-group's interests when their own self-interest conflicts or when they have already engaged in an unethical act.

In the former case, individuals whose self-interest and in-group's interests are both salient face a difficult dilemma, i.e., a choice between the self and the in-group. These choices are necessarily interdependent because choosing one rather than the other can immediately influence the other: choosing the self can alienate the group; choosing the group can increase mutual commitment among the group's members. Departures from in-group memberships provide a behavioural indication, that self-interest dominates an individual's valuation of their in-group interests. Acting for the group rather than the self similarly indicates that self-interests are not primary in this particular case.

In the latter case, if individuals have acted unethically, they can lay off some of the responsibility for their actions by claiming that their underlying motivations originated within their in-group. Ironically, although sharing responsibility for unjust acts with a random person is unlikely, individuals can share injurious responsibilities amongst the group members by broadly justifying their acts as socially determined because of the collective nature of in-groups. It is not rare, for instance, for unethical actors to claim that their compatriots should share not only in their fortunes, but also in their misfortunes. By appropriating the norm of fairness, individuals who want to diffuse their culpability can use their in-group membership to help them avoid seeing themselves as immoral.

The interplay of interests between the self, the in-group, and the out-group provides a number of possible outcomes to any ethical decision-making process. Individuals can choose to favour themselves or their in-group; they are much less likely to favour their out-groups. In addition, they can disfavour their in-group by either

asking them to share in the blame for their own unethical acts or they can actively choose against the group's interests when their self-interest is sufficiently strong.

### In Closing

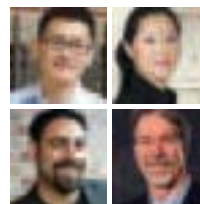
We concede that self-interest has an evolutionary advantage over ethics and morality. When in conflict with ethical principles, both self-interest and in-group interests are the enemy of ethical decision making. Organizations that can establish social support for moral action; espouse wide-ranging consideration of the moral consequences of individual and group decisions; and emphasize the need for moral awareness, judgment, intent and action may be able to collectively benefit from a reduction in unethical actions.

Given the salience and strength of self-interest, team and organizational leaders must work hard to provide the kinds of supportive, ethical structures that will allow ethical decision making to flourish. Broadening the basis for evaluations – to the performance of all related work groups and the organization in general – might also help align incentives more effectively and blunt the immediate and potent impact of unitary self-interest. In addition, unethical actions may be curbed if it is made clear that acting unethically 'for the sake of the group' is unacceptable.

In an era of expanding technology and the ability to interact electronically rather than personally, we fear that the expanding social distance between group and organizational members will contribute to an undermining of the chances for ethical decision making. Instead, we may need to revert to 'bubba psychology,' i.e., what we learned from our grandmothers. In other words, we must inculcate a strong moral conscience, and this must come early – long before individuals become members of formal, complex organizations.

We encourage firms to select 'moral torch-bearers' and, given their potential for extended impact, distribute them carefully throughout the organization. These individuals will require sufficient formal support so that their unnatural stance can be personally heard in all of an organization's groups. Without this kind of personal influence, self-interest becomes a solution that is far too easy.

The institutionalization of internal moral compasses is a tall order for any team or organization. It is also one that requires relentless attention and consistent support from management. An awareness of moral consequences is insufficient to generate ethical actions. It appears, in the end, that morality requires individual, group *and* organizational support to succeed. **R**



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# Generation Investment Management founding partner **Colin le Duc** talks about the 'real needs' of consumers, the gap between GDP per capita and life satisfaction, and our collective progress on addressing climate change.

Interview by **Karen Christensen**



**Describe Generation Investment Management's philosophy.**



Our fundamental philosophy is twofold: that investment results are maximized by adopting a long-term investment horizon, because the majority of a company's value is determined by its ability to generate cash-flow over the long-term; and that sustainability issues can impact a company's ability to generate those returns and therefore must be fully integrated with rigorous fundamental equity analysis to achieve optimal long-term results. A big part of our challenge is the fight against 'short-termism' in the capital markets. The sustainability research we do is really an analysis of the shareholder implications of long-term environmental as well as social and geo-political change. Investors often pay insufficient attention to issues that are really important for the long-term, such as climate change, and we

believe our analysis of these longer term trends gives us a competitive advantage. By seeking companies focused on long-term value creation, we hope to invest in firms that are part of the solution to global challenges.

**Climate change is one of your key areas of focus. Describe how business will be affected by climate change.**

Business will be impacted in some very profound ways. Climate change is a material sustainability challenge for many industries, but it also presents incredible opportunities. The solar and wind industries are two fairly obvious examples, but there are also opportunities in building efficiency. Companies that tackle sustainable design, architecture and control systems are another part of the solution. Our belief is that firms that are preparing for a carbon-constrained world will be at a competitive advantage. This is true

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**Colin le Duc** is one of six founding partners and head of research at Generation Investment Management LLP, whose chairman (and founding partner) is the Honourable Al Gore.

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in the industrial sector, the utility sector, auto and mining, and in some aspects of the financial sector as well. So climate change does really have a profound impact – more material in some than others – on almost every sector of the global economy.

**Have we made any real progress in addressing climate change?**

The good news is that right this minute, we have the ability to solve a good portion of the climate change issue just by virtue of the technologies that we already have. Obviously, we hope that over time, more new technologies will be developed. In terms of using alternative resources such as wind and solar, I think we're getting there pretty rapidly, and in terms of building efficiency, there will be huge opportunities for various aspects of industry that are involved in building systems that are just smarter and more energy-efficient. In simplistic terms, the climate change issue is really about cars, coal and buildings, and we have opportunities in all of these areas that can help to deal with it right now.

**According to BusinessWeek, 80 per cent of CEOs believe that climate change is a potential risk, but only 40 per cent are doing something about it. Why are CEOs – and people in general – so complacent about this issue?**

We have found that the very best CEOs actually do take this seriously, not just in the context of risk to the planet but in risk to their bottom line and to their shareholders. Having said that, the failure to correctly understand climate risk is a huge danger for many businesses. Creating innovative strategies for efficiency for better environmental performance will become a real competitive advantage, and we believe that people will see that over time. We have already seen the discussion change fairly dramatically over the past year-and-a-half in terms of the understanding of the people at the highest levels of corporations. An awful lot of good work is being done, and those that seize it will ultimately gain that competitive advantage we talked about.

**Another area of focus for your firm is pandemics, including HIV/AIDS, which you believe have the ability to erode the stable operating environment for business over a long-term horizon. Please explain.**

We have studied the investment implications of pandemics in the BRIC countries [Brazil, Russia, India and China], and our view is that pandemics, which include HIV/AIDS and Avian Flu, can have a profound impact on the erosion of a stable operating system for businesses in the countries in which they exist. There are obviously significant impacts at the macro level to the GDP of these countries, but there are also huge impacts in the disruption of day-to-day services and what it would do to issues such as poverty, and

how you would use your human capital during those periods, as well as security concerns. We view pandemics as a systemic difficulty that companies really need to be aware of. Again, many excellent companies are coming to that conclusion – perhaps the Avian Flu was a wake-up call for some, but a number of them have also been dealing quite expertly with HIV/AIDS. If you're doing business in certain areas it is really important for investors to understand how you feel about these issues, especially in the BRIC countries.

**In *The Fortune at the Bottom of the Pyramid*, C.K. Prahalad argues that there is \$13 trillion in untapped market opportunity in the poorest regions of the world. How is Generation approaching this?**

We agree that the base of the pyramid is really interesting in a number of ways, and C.K. Prahalad and Stuart Hart have led the way in understanding the tremendous opportunities in these markets. But we think that there are two things to look at here. First, we are beginning to see some very interesting direct opportunities for companies. The large multinational corporations are experimenting and looking to find the models that can work and be sustainable over time. It's not an easy thing to master, but we have confidence that over the next five to 10 years, a number of large corporations will find and benefit from these opportunities, and that it will begin to be significant in terms of revenue. Particularly in the financial area, opportunities exist right this minute, and we're looking at these closely. We also view this in the sense that the base of the pyramid provides an important lens on the quality of a firm's management and how it is going to exercise leadership and innovate. If you are dealing in poor areas, such as Africa and Asia, it is an important component of your business to understand what is meant by 'the base of the pyramid.' If you don't, that should give investors pause as to the quality of your firm's management. In the end there are two opposing risks in addressing the world's poorest markets: the first is not doing anything and missing out on the growth opportunities; the second is getting it wrong and suffering reputational damage, or worse, negatively impacting vulnerable communities.

**Generation has identified a 'progress gap' between GDP growth and life satisfaction at the 'top' of the pyramid. Please explain this.**

The sad truth is that despite 50 years of economic growth in developed countries, the gap between economic prosperity and personal well-being has actually widened. Society is undergoing a fundamental shift from 'material want' to 'meaning want,' with ever large numbers of people reasonably secure in terms of living standards, but feeling they lack significance in their lives. The 'conscious

consumer' market is already a \$250 billion market, growing at double digits. And changing consumer values are mirrored by changing employee expectations. The good news for business is that companies – through the work they do, the products they sell and the way they treat their staff – have opportunities to address the real needs of their employees, customers and communities, and in so doing, create enduring value.

As an example, if you are a petroleum engineer and you just graduated with your masters degree, would you want to join a company that understands what the climate change challenges are, or one that basically denies that climate change issues exist? Or, if you're coming out of school and want to work in marketing in a retail company that, say, deals with food, would you want to work for one that is sort of on the cutting-edge on nutrition issues and is taking a look at the obesity issue and trying to work on it, or would you want to be part of a company that basically ignores these issues? I think the answers are pretty clear, and the best companies are attempting to create that kind of environment so that their employees can be productive and innovative.

**You note that while companies are responsible for some of the drivers of the progress gap, they can also be part of the solution. How so?**

The concept of 'social capital' is one way of exploring the gap between economic growth and well-being. Social capital refers to the institutions, norms and networks that enable collective action, or as some put it, the 'social glue' that binds a group together. Fundamentally, social capital is about engagement. We must find ways to reverse the trend of dis-engagement that is leaving people at home, alone, consuming materialism at an increasingly dissatisfying rate. Companies play a key role here, because the most common context for engagement is one's work. It's where most of us spend the majority of our time, and therefore fulfillment at work can deliver broader social benefits by combating social isolation, depression, even crime.

Another part of the solution is trust. Even if the norms and networks in a society are clearly articulated, they only function if community members trust they will be upheld. Low trust means higher cost for security, more checks and balances, more enforcement and more propagation of laws and codes. The price of all of this is forgone investments in other priorities such as health or education, and fewer freedoms to exercise independent judgment.

**Your firm has uncovered four 'real needs' of today's consumers that suggest areas where companies can deliver enduring value. What are they?**

The first need is simplicity. Our economic system thrives on year-over-year increases in personal consumption, which can secure business growth, but also encourages customers to consume more, even if it is better for them to consume less. The second need is quality leisure. The category of 'recreation and leisure industries' now accounts for a larger share of GDP than 'petroleum and utility industries.' Companies that can free up time for people are extremely valuable, as are those that can get people to use that free time for self-actualization (travel, social activities, family time,

## Sample Investment Ideas

Figure 1

**Industrial sector:** green buildings, ecosystem restoration, climate change mitigation, products to manage energy consumption and reduce environmental impact, hybrid technology, renewables (wind, solar, biofuels, hydrogen)

**Financial sector:** community banks, housing lending/affordable mortgage products, educational loans, health insurance and savings products, philanthropic financial services

**Consumer sector:** leisure, food safety, organic/fair trade, sustainable agriculture, energy efficiency in the home, shifting demographics, conscious consumerism and post materialism, products with enhanced social utility

**Health Care sector:** healthy lifestyles, alternative medicine, preventative health care, genetic testing, life-saving drugs and devices

**Tech/Telecom:** functionality over features, clean and green design, products that knit closer ties across communities, remote services/education, open source, control of content, wireless connectivity, harnessing the power of online communities

volunteering.) Third is the need for connectivity, meaning and relationships. Personal relationships are one of the most important aspects of well-being. They link us to a sense of higher purpose. However, research suggests we are spending too much time increasing our economic wealth, rather than fostering these crucial relationships. For companies, it is no longer enough to create a product or service that is reasonably priced and adequately functional. Consumers are demanding something more – such as spirituality or emotion – as they seek fewer and deeper connections through the products and services they buy. The fourth need is a secure and healthy environment. In the face of sustained environmental degradation, the consumer complacency of the last 40 years may be dissipating. The link between an unhealthy environment and the health of its inhabitants is finally being internalized. For example, the life expectancy in China has gone down over the last three years, predominantly because of air and water pollution.

**Describe how 'common purpose' relates to your work.**

If we accept that progress has lagged GDP and that there is market demand for improvement, then we face both a social and a market opportunity. **Richard Layard** argues in his book *Happiness* that "a society cannot flourish without some sense of shared purpose." Social capital is enhanced when people feel they have a role in society. In the past few years, events like the Asian tsunami and September 11th may have started to shake the global indifference much of the world has experienced since World War II. People are looking for meaningful ways to connect with causes rather than continue in a 'conspiracy of silence.' By combining common purpose and a thirst for meaning, we can redefine the concept of growth. **R**